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**FISCAL IMPACT STATEMENT**

**LS 6174**

**BILL NUMBER:** HB 1228

**NOTE PREPARED:** Dec 22, 2005

**BILL AMENDED:**

**SUBJECT:** Education Finance and Taxation.

**FIRST AUTHOR:** Rep. Day

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** The bill imposes a graduated Adjusted Gross Income Tax, with a maximum rate of 4.4%.

The bill provides that for purposes of computing the Average Daily Membership and other pupil counts of school corporations, kindergarten pupils attending a full-day kindergarten program are counted as one pupil. It also provides that an amount equal to the property taxes that would otherwise result from the recalculation of average daily membership shall instead be paid as additional tuition support.

The bill authorizes the State Student Assistance Commission to provide grants and loans to persons who: (1) are employed in certain positions by a school corporation or an accredited nonpublic school; and (2) are enrolled in or admitted to an Indiana institution of higher education as students pursuing a master's degree. It provides that a grant or loan must be applied to the person's costs for tuition and regularly assessed fees, and provides that the maximum amount of a grant is \$5,000 and the maximum amount of a loan is \$5,000. It also provides that the total of all grants and loans in a state fiscal year may not exceed \$20,000,000. The bill provides a refundable Income Tax credit for repayment of loan amounts and provides that the credit may not exceed \$1,000 each year.

The bill requires the Department of Education to establish a pilot program to provide grants to school corporations that implement pre-kindergarten programs. It requires the Education Roundtable to provide recommendations to the Department of Education concerning the criteria to be used in selecting the school corporations for the pilot program. It also provides that the total of all grants under the pilot program in a state fiscal year may not exceed \$20,000,000. The bill includes reporting requirements for participating school

corporations and the Department of Education. It also provides that the pilot program expires July 1, 2013.

The bill makes an appropriation.

**Effective Date:** Upon passage; July 1, 2006; January 1, 2007.

**Summary of Net State Impact:** The net fiscal impact to the state General Fund from this bill is summarized in the table below.

	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
Graduated AGI Tax	\$93.3 M	\$213.4 M	\$219.8 M
Pre-Kindergarten Grant Pilot Program	(\$20.0 M)	\$0	\$0
Master's Degree Grant/Loan Program	(\$20.0 M)	\$0	\$0
Full-Day Kindergarten Funding	\$0	(\$66.2 M)	(\$178.5 M)
Master's Degree Loan Repayment Tax Credit	\$0	(\$1.1 M)	(\$1.4 M)
<b>Net Impact</b>	<b>\$53.3 M</b>	<b>\$146.0 M</b>	<b>\$39.9 M</b>

**Explanation of State Expenditures:** *Master's Degree Grant and Loans:* The bill establishes the Master's Degree Grant and Loan Program to be administered by the Student Assistance Commission. The bill appropriates \$20 M to the Commission in FY 2007 for the program and allows the Commission to spend up to \$100,000 annually to administer the program. The bill establishes the Master's Degree Grant and Loan Fund consisting of appropriations and other money for the program. The Fund is nonreverting and is administered by the Commission.

Under the program the Commission may provide grants of up to \$5,000 to school personnel pursuing a master's degree at a public or private college or university located in Indiana that is approved for the program by the Commission. In addition, the Commission is allowed to make loans of up to \$5,000 to persons that have already been provided a grant and have successfully completed at least one semester of the master's degree program. Teachers, administrative officers, librarians, licensed or registered nurses, dietitians, mental health providers, and school social workers of school corporations and accredited nonpublic schools are eligible for grants and loans. The bill limits all loans and grants made by the Commission to \$20 M per fiscal year. Also, the Commission would establish interest and payback schedules for loans.

If the Commission provides about \$10 M in grants and makes about \$10 M in loans during FY 2007, it is estimated that there could potentially be about \$1.6 M available (from loan repayments) for new grants and loans in FY 2008. If this money is divided equally between new grants and loans in FY 2008, it is estimated that the amount available (from loan repayments) for new grants and loans in FY 2009 could total about \$1.4 M. This assumes that the Commission makes 10-year loans with an interest rate of 5%, and basically matches each grant it makes to a master's student with a subsequent loan of equal value after the first semester of the academic year.

School corporations employed about 26,300 people with a bachelor's degree in the 2005 school year. The \$20

M appropriation would provide grants and/or loans to between 3,980 and 4,000 people depending if the commission uses \$100,000 for administrative expenses. About 3,000 new teachers are hired each year by school corporations.

*Pre-Kindergarten Grant Pilot Program:* The bill establishes the Pre-Kindergarten Grant Pilot Program to be administered by the Department of Education. The bill appropriates \$20 M in FY 2007 to the Department of Education for the program and allows the Department to use up to \$100,000 annually to administer the program. The bill provides that unexpended money appropriated to the Department for the pilot program does not revert to the state General Fund at the end of the fiscal year.

Under the bill, school corporations must apply to the Department for grants. Grant applications must include the following:

1. the number of students likely to participate,
2. the pre-kindergarten curriculum of the school corporation, and
3. the estimated cost of implementing the program.

School corporations receiving grants must submit a written report concerning implementation of the pilot program to the Department by July 1<sup>st</sup> each year. The Department also must submit a report on the pilot program to the Governor and the General Assembly by November 1<sup>st</sup> each year.

The bill requires the Education Roundtable to provide recommendations to the Department concerning the criteria to be used in selecting school corporations to participate in the pilot program. In selecting school corporations to participate in the pilot program, the bill requires the Department to:

1. select a representative sample of school corporations;
2. give priority to the selection of lower-performing school corporations; and
3. to the extent possible, select schools to achieve geographic balance and include urban, suburban, and rural school corporations.

*Full-Day Kindergarten:* The bill provides that a kindergarten student who attends a full-day kindergarten program counts as 1 student instead of ½ of a student in calculating student counts for the school formula beginning in CY 2008. The impact on the school formula would depend on the number of students attending full-day kindergarten programs and the school formula for CY 2008. The bill also provides that the state pay for any increase in property tax levies due to the addition to the ADM caused by counting kindergarten students as 1 student. Currently, there is no school formula for CY 2008 and years after. If the CY 2006-2007 school formula is used as an example and it is assumed that all the students currently attending kindergarten attended a full-day program, then the increase in the state distribution for CY 2008 would be about \$150.3 M for tuition support and \$8.6 M to offset the increase in property taxes. The approximate increase for CY 2009 would then be \$193.4 M in tuition support and \$12.6 M to offset the increase in property taxes.

*Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the tax rate changes and the new tax credit. The DOR's current level of resources should be sufficient to implement this change.

**Explanation of State Revenues:** *Graduated AGI Tax:* The bill replaces the current individual Adjusted Gross Income (AGI) tax rate equal to 3.4% on all taxable AGI with a graduated tax rate structure beginning in tax

year 2007. The graduated tax rate structure is presented in the table below.

<b>Taxable AGI Range</b>	<b>Tax Rate</b>
Less than \$75,000	3.4%
\$75,000 to less than \$100,000	3.6%
\$100,000 and above	4.4%

The graduated tax rate structure is estimated to generate about \$93.3 M in FY 2007; \$213.4 M in FY 2008; and \$219.8 M in FY 2009. The current law distribution percentages for individual AGI Tax to the state General Fund and the Property Tax Replacement Fund are changed by the bill so that incremental revenue generated by the tax rate change is distributed to the state General Fund.

The revenue estimates are based on the average change in tax liability observed in simulations conducted with data from individual income tax records from 1996 to 2003. The graduated rate structure is estimated to increase revenue by about 4.6% above the current base. This growth rate is applied to the Revenue Technical Committee's updated (December 14, 2005) forecast for FY 2007. Estimates for FY 2008 and FY 2009 assume a 3% annual growth rate. The impact of the tax year 2007 change is expected to affect FY 2007 revenue due to increased monthly withholdings and quarterly estimated payments during the January-June, 2007 period.

*Master's Degree Loan Repayment Tax Credit:* The bill establishes a refundable individual AGI tax credit of up to \$1,000 per year for loan repayments made by a taxpayer who receives a loan under the Master's Degree Grant and Loan Program established by the bill. The credit is effective beginning in tax year 2007.

It is estimated that creditable loan repayments could potentially total about \$1.1 M in tax year 2007 (affecting FY 2008 revenue) and about \$1.4 M in tax year 2008 (affecting FY 2009 revenue). This assumes that the Student Assistance Commission provides about \$10 M in grants and makes about \$10 M in loans during FY 2007, and about \$1.6 M in new grants and loans in FY 2008 from loan repayments.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** See *Explanation of State Expenditures*.

**State Agencies Affected:** Department of Education, Student Assistance Commission, Education Roundtable, State Higher Education Institutions, Department of State Revenue.

**Local Agencies Affected:** School Corporations.

**Information Sources:** OFMA Income Tax Databases; State Revenue Forecast (December 14, 2005); Department of Education Databases.

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